

THE NORTH AMERICAN FREE TRADE AGREEMENT

SEVEN YEARS OF SUCCESS

by Office of NAFTA and Inter-American Affairs,
Market Access and Compliance

In its first seven years, the North American Free Trade Agreement (NAFTA) has shown that it works for America by producing tremendous growth in trade and related benefits, including new jobs, for the United States and our two partners, Canada and Mexico. Let's look at some of the facts:

- With the advent of NAFTA, Mexico has grown to be our second largest trading partner, just behind Canada.
- Trade with our NAFTA partners is growing twice as fast as U.S. trade with the rest of the world and accounts for approximately one-third of all U.S. merchandise trade, exceeding trade with both the EU and Japan combined.
- We trade \$1.8 billion a day with our NAFTA partners – that's \$1.2 million a minute.

NAFTA has created the largest free trade area in the world — a thriving regional market of more than 411 million consumers producing more than \$11 trillion worth of goods and services. The dismantling of trade barriers and the opening of markets have led to economic growth

and rising prosperity in all three countries. Although the Agreement will not be fully implemented until 2008, already it is working to expand and protect U.S. exports to Canada and Mexico.

INCREASING MARKET ACCESS

NAFTA has leveled the playing field by creating fair and open markets for U.S. exporters. Today virtually all of our exports enter Canada duty-free. Nearly three-fourths enter Mexico duty-free – almost all manufactured exports will be duty-free in 2003. Prior to NAFTA, the average Mexican tariff on our exports was 10 percent – nearly five times the average U.S. tariff of 2 percent.

However, NAFTA, a comprehensive trade agreement, goes beyond tariff reductions. NAFTA's harmonized customs' procedures have helped facilitate the flow of goods across borders. Its rules of origin ensure the benefits of NAFTA are extended only to goods with a substantial percentage of input produced within the border of NAFTA countries. NAFTA addresses technical barriers to trade, clarifying basic rights and obligations. Likewise, the agreement has expanded opportunities for businesses to pursue government procurement contracts among NAFTA partners. NAFTA provides rules on investment that require non-discriminatory treat-

ment to foreign investors. Its rules on services, such as telecommunications and financial services, have helped to increase access for consumers and ensure stability and growth in the markets. Rules for intellectual property rights have been enhanced to safeguard new works and technologies while stimulating creativity and competition.

CREATING PRODUCTIVE PARTNERSHIPS

Under NAFTA, producers are better able to realize their full potential by operating in a larger, more integrated and efficient North American economy. Manufacturers are able to access duty-free, high-quality intermediate goods from across North America in the production of final goods for export. Consumers benefit from this heightened competition and integrated marketplace with better prices, greater choice of products and higher-quality goods and services.

PROTECTING THE ENVIRONMENT AND RESPECTING BASIC LABOR STANDARDS

NAFTA recognizes the importance of protecting the environment for future generations and improving working conditions. With respect to the environment, the agreement has led to a remarkable improvement in our ability

to protect public health, improve the quality of our air and water and protect habitat and wildlife. Specifically, the three NAFTA countries, through the Commission for Environmental Cooperation, have addressed issues related to the banning of dangerous chemicals, such as DDT, in North America; development of environmental management system guidelines for businesses; and a strategy to conserve wildlife and natural ecosystems in North America.

In addition, the United States and Mexico cooperate through the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank) to develop and finance environmental infrastructure in the U.S.-Mexico border area. Since 1994, the institutions have been instrumental in the development of over 31 projects, now complete or under construction, with an aggregate cost of nearly \$1 billion.

With respect to labor, the three NAFTA countries, through the Commission for Labor Cooperation, are seeking to improve working conditions and living standards and commit themselves to promoting basic labor standards in the three countries. In addition, we have established cooperative programs and technical exchanges on industrial relations, health and safety, child labor, gender and migrant worker issues.

PROVIDING REAL BENEFITS

NAFTA has provided tremendous benefits for American, Mexican and Canadian businesses. For example, NAFTA has been a huge success for Kodak, with exports to Mexico quadrupling since NAFTA was signed, from \$115 million in 1993 to over \$450 million in 2000. Over the last five years, exports from the U.S. to Mexico have grown four times faster than overall Kodak U.S. exports. NAFTA has also had a positive effect on U.S. employment at Kodak. Since exports

no longer face steep tariffs when entering Mexico, Kodak was able to transfer a high-cost sensitizing operation from Mexico to Rochester, New York, creating U.S. jobs, increasing efficiency, lowering costs and improving quality.

More broadly, the value of textile and apparel exports to Mexico and Canada has doubled under NAFTA, reaching nearly \$10 billion last year. Exports of American-made cars to Mexico have increased more than 1,000 percent. These exports support real jobs for real Americans. In the seven years since NAFTA's implementation, our exports to Mexico and Canada now support 2.9 million American jobs – 900,000 more than in 1993. Such jobs pay wages that are 13 to 18 percent higher than the average American wage.

IMPLEMENTING THE AGREEMENT

Institutionally, the implementation of NAFTA is directed by the Free Trade Commission, chaired jointly by the trade ministers from each country. The Commission oversees the more than twenty-five committees and working groups, which are working toward full implementation of NAFTA by 2008. Tasked with day-to-day management of NAFTA work program, these groups provide a forum for early discussion of contentious issues. If no mutually acceptable solution can be found, NAFTA provides for expeditious and effective dispute settlement procedures.

BEYOND NAFTA

Seven years later, NAFTA's record is very positive. It has created the opportunities that allow our people to create jobs and raise living standards, dramatically expanded trade and investment and shielded our continent from the worst effects of global crises. And it has helped us work more closely than ever before to protect our natural heritage, improve public health and advance the rights of workers. And, as it has achieved these specific tasks, it has

served the fundamental strategic interest we all have in preserving the peaceful, cooperative relationship between the countries, which share the North American continent.

NAFTA's tremendous success underscores the importance of expanding free trade throughout the hemisphere – and the world. The Free Trade Area of the Americas (FTAA) is on the administration's short list of trade priorities. Once completed in 2005, the FTAA will create an open market of 800 million consumers and a combined GDP exceeding \$12.5 trillion. The FTAA will give U.S. exporters much broader access to markets throughout the hemisphere.

We are also negotiating free trade agreements with Chile and Singapore, seeking to knock down barriers to U.S. exporters and working with all WTO members to ensure a successful launch of a new round of global trade negotiations in Doha in November. Such trade agreements will further stimulate innovation and opportunity for U.S. exporters, add to the income and savings of American families and encourage sound economic and environmental policies among our partners. ■

MORE INFORMATION ON NAFTA

Commerce NAFTA site –
www.mac.doc.gov/nafta

Council of the Americas
NAFTA state reports - www.counciloftheamericas.org/committees/naftastudies.htm

Trade Information Center–
<http://tradeinfo.doc.gov>